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## ANNUAL REPORT

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For the year ended December 31, 1974

***BLACK HAWK***  
***MINING LTD.***  
(No Personal Liability)





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# ***BLACK HAWK MINING LTD.***

(No Personal Liability)

**AND ITS WHOLLY-OWNED SUBSIDIARY**

## **Officers**

W. Noel O'Brien	-	-	-	-	-	-	-	-	-	-	President
John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	-	Vice-President
A. F. Risso	-	-	-	-	-	-	-	-	-	-	Secretary-Treasurer
A.F. Casselman	-	-	-	-	-	-	-	-	-	-	Assistant Secretary-Treasurer
D. C. Marshall	-	-	-	-	-	-	-	-	-	-	Assistant Secretary-Treasurer

## **Directors**

John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	-	Toronto
J. M. Kirschbaum, LL.D., Ph.D.	-	-	-	-	-	-	-	-	-	-	Toronto
John Kostuik, B.Sc.	-	-	-	-	-	-	-	-	-	-	Toronto
W. Noel O'Brien, P.Eng.	-	-	-	-	-	-	-	-	-	-	Toronto
A. F. Risso	-	-	-	-	-	-	-	-	-	-	Toronto

## **Head Office**

Suite 102  
400 St. James Street West  
Montreal 1, Quebec

## **Executive Offices**

20th Floor  
4 King Street West  
Toronto, Ontario  
M5H 1C2

## **Transfer Agent**

Guaranty Trust Company of Canada  
Toronto, Ontario  
Montreal, Quebec

## **Auditors**

Starkman, Kraft, Rothman,  
Berger & Grill  
Toronto, Ontario

## **Solicitors**

Manley, Grant & Camisso  
Toronto, Ontario

## **Bankers**

The Royal Bank of Canada  
Toronto, Ontario

# ***Black Hawk Corporation***

**a wholly-owned subsidiary of Black Hawk Mining Ltd.  
incorporated in the State of Maine, U.S.A.**

## **Directors and Officers**

W. Noel O'Brien, P.Eng., President	-	-	-	-	-	-	-	-	-	Toronto
A. F. Risso	-	-	-	-	-	-	-	-	-	Toronto
A. F. Casselman	-	-	-	-	-	-	-	-	-	Montreal
D. C. Marshall, Treasurer	-	-	-	-	-	-	-	-	-	Toronto
J. M. Kirschbaum, LL.D., Ph.D.	-	-	-	-	-	-	-	-	-	Toronto
Harris L. McLean, Jr.	-	-	-	-	-	-	-	-	-	Ellsworth, Maine
Kenneth W. Blaisdell, Clerk	-	-	-	-	-	-	-	-	-	Ellsworth, Maine

**HEAD OFFICE:** 6 State Street, Ellsworth, Maine

**EXECUTIVE OFFICES:** 4 King Street West, Toronto, Ontario



# **BLACK HAWK MINING LTD.**

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

## *President's Report*

The Blue Hill mine, in which your Company has a 40% interest through its subsidiary, Black Hawk Corporation, completed its second full year of operation profitably in 1974.

Operating income for 1974 was \$1,533,668 before amortization and interest charges. Net profit was \$195,411, equal to 4.5¢ per share. Working capital increased by \$670,601. Good progress was made in reducing debt; the balance of the bank loan was repaid and \$1,035,160 was applied to retirement of debenture principal and repayment of advances from Denison Mines Limited.

Mining was concentrated in the main zinc zone; however, development of the Mammoth Copper zone to the southwest was begun and some production resulted. New information from surface drilling has increased reserves in the Mammoth area and development now is being undertaken to bore a 300-foot ventilation raise, 4 feet in diameter to surface. In addition an adit has been begun to provide a second access to the Mammoth deposits which are at relatively shallow depths. These additional reserves are particularly welcomed at this time because of their location and the possibility that the tonnage can be further increased.

Very intensive surface drilling efforts were continued to define, extend and evaluate the Carlton zone south of the original Blue Hill shaft; although ore grade mineralization has been intersected in a number of additional holes, results in this Carlton zone are not yet conclusive, and the zone is not included in ore reserves. The Carlton drilling program is continuing and additional surface drilling is planned in areas bordering the present operating areas.

There was a decline in the grade of zinc ore and in zinc production during the year, coupled with increasing mining costs, reflecting difficult mining conditions. Offsetting these were price increases in zinc during the year. It is expected that thicker ore deposits in the Mammoth zone should provide some easement of conditions by mid-1975.

In summary, your Company expects operations to be profitable in 1975, although on a reduced level because of mining costs and lower copper prices. For the longer term, it is essential to increase ore reserves and our efforts in 1975 will include a continuing strong program of surface drilling and underground probing.

On Behalf of the Board of Directors,

*Noel O'Brien*

President.

### OPERATING RESULTS

	<u>1974</u>	<u>1973</u>
Tons milled:	206,400	230,200
Grades (mill feed) — zinc	6.44%	10.69%
— copper	0.89%	0.63%
Metals (in concentrates) — zinc	23,042,000 lbs.	46,060,000 lbs.
— copper	2,587,200 lbs.	1,770,000 lbs.
Milling Rate/Operating Day:	875 tons	935 tons
Surface Exploration Drilling (feet)	43,364	33,590

### MINEABLE RESERVES AT YEAR END — 1974

	<u>Tons</u>	<u>% Zinc</u>	<u>% Copper</u>
	(dilution included)		
Zinc Zones .....	266,500	12.43	0.81
Copper Zones .....	434,700	0.95	2.07
TOTAL .....	701,200*		

The average grade of zinc and copper zones, if combined, is 5.3% zinc and 1.59% copper.

NOTE:

\*Year end total 1973, 742,000 tons.



# BLACK HAWK

(No Person)

AND ITS WHOLLY OWNED SUBSIDIARIES

*Black Hawk Mining Ltd.*

*Consolidated Balance Sheet*

## ASSETS

	As at December 31	
	1974	1973
<b>Current Assets</b>		
Cash	\$ 4,781	\$ 11,930
Smelter settlements receivable, at estimated net realizable value	387,985	611,265
Concentrates on hand, at lower of cost or net realizable value	612,588	589,878
	<u>1,005,354</u>	<u>1,213,073</u>
<b>Interest in Blue Hill Joint Venture</b> , at cost (Notes 4, 5 and 9)	4,600,640	4,495,130
Less: Accumulated amortization	1,828,247	810,164
	<u>2,772,393</u>	<u>3,684,966</u>
<b>Deferred Expenses</b> , at cost (Notes 7 and 8)		
Corporate expenses	90,185	90,185
Bond discount and financing expenses	204,284	204,284
	<u>294,469</u>	<u>294,469</u>
Less: Accumulated amortization	117,552	53,073
	<u>176,917</u>	<u>241,396</u>
<b>Other</b>		
Furniture and fixtures, at nominal value	1	1
Organization expenses, at cost	5,441	5,441
	<u>5,442</u>	<u>5,442</u>
	<u>\$3,960,106</u>	<u>\$5,144,877</u>

Approved on behalf of the Board:

A. F. RISSO, Director.

J. M. KIRSCHBAUM, Director.

The accompanying notes form an integral part of these financial statements.

To be read in conjunction with the Auditors' Report attached hereto dated January 3, 1975.

## AUDITORS' REPORT

We have examined the consolidated balance sheet of Black Hawk Mining Ltd. (the "Company") at December 31, 1974 and the consolidated statements of operations and deficit and general review of the accounting procedures and such tests of accounting records and other data as we considered necessary for the purposes of our audit.

In our opinion, these consolidated financial statements present fairly the financial position and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles.

Toronto, Ontario.  
January 3, 1975.

# **K MINING LTD.**

(Personal Liability)

WHOLLY-OWNED SUBSIDIARY

## **Black Hawk Corporation**

### **Balance Sheet**

#### **LIABILITIES**

	As at December 31	
	<b>1974</b>	<b>1973</b>
<b>Current Liabilities</b>		
Bank indebtedness .....	\$ —	\$ 596,020
Accounts payable and accrued charges .....	22,100	18,145
Advances from Denison Mines Limited .....	10,800	227,464
Accrued interest on debentures and advances (Note 1) .....	—	68,496
Due to joint venture partner, Kerramerican, Inc. ....	124,853	125,948
	<u>157,753</u>	<u>1,036,073</u>
<b>Long-Term Debt (Notes 1 and 6)</b>		
6½ % Series A, Debentures .....	1,985,000	2,735,000
Accrued interest on debentures .....	1,755,312	1,507,174
	<u>3,740,312</u>	<u>4,242,174</u>
<b>Total Liabilities</b> .....	<u>3,898,065</u>	<u>5,278,247</u>

#### **SHAREHOLDERS' EQUITY**

<b>Capital</b>		
Authorized		
5,000,000 shares with a par value of \$1 each		
Issued		
1,200,000 shares for mining claims .....	1,200,000	1,200,000
400,000 shares for acquisition of wholly-owned subsidiary ..	400,000	400,000
2,719,009 shares for cash .....	2,719,009	2,719,009
<u>4,319,009</u> shares .....	<u>4,319,009</u>	<u>4,319,009</u>
Less: Discount thereon .....	<u>3,720,185</u>	<u>3,720,185</u>
	598,824	598,824
<b>Deficit</b> .....	536,783	732,194
	<u>62,041</u>	<u>(133,370)</u>
	<u>\$3,960,106</u>	<u>\$5,144,877</u>

#### **REPORT**

(Personal Liability) and its wholly-owned subsidiary Black Hawk Corporation as shown on the balance sheet attached hereto. Our examination included a review of the supporting evidence as we considered necessary in the circumstances.

On the basis of our examination of the companies as at December 31, 1974 and the results of their operations, we have concluded that they have properly applied generally accepted accounting principles applied on a basis consistent with that of the

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL,  
Chartered Accountants.



# BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

## CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Year Ended December 31	
	1974	1973
Revenue from Metal Sales	\$4,416,511	\$3,081,283
Expenses		
Cost of sales	2,857,859	2,417,291
Administration	24,984	27,983
	2,882,843	2,445,274
Operating Income Before the Undernoted Items	1,533,668	636,009
Other Expenses		
Amortization of interest in Blue Hill Joint Venture (Note 9)	1,018,083	810,164
Amortization of deferred corporate and financing expenses (Note 9)	64,480	53,073
Interest on debentures	248,138	249,996
Interest — other	7,556	71,047
	1,338,257	1,184,280
Profit (Loss) for the Year	195,411	(548,271)
Deficit, beginning of year	732,194	183,923
Deficit, end of year	\$ 536,783	\$ 732,194
Earnings (Loss) per Share	4.5¢	(12.7¢)

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1974	1973
Source of Funds		
From Operations		
Profit (loss) for the year	\$ 195,411	\$ (548,271)
Add: Items not involving an outlay of funds		
Amortization of interest in Blue Hill Joint Venture	1,018,083	810,164
Amortization of deferred expenses	64,480	53,073
Interest on debentures	248,138	249,996
	1,526,112	564,962
Application of Funds		
Repayment of debenture	750,000	—
Share of joint venture exploration expenditures	54,188	31,129
Share of joint venture fixed asset expenditures	51,323	36,634
	855,511	67,763
Increase in Working Capital	670,601	491,799
Working Capital (Deficiency), beginning of year	177,000	(320,199)
Working Capital, end of year	\$ 847,601	\$ 177,000

The accompanying notes form an integral part of these financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 1974**

1. (a) Under the provisions of the Trust Indenture dated July 15, 1965, securing the Debentures Series "A":
    - (i) \$5,000,000 6½ % Debentures Series "A" have been authorized maturing June 30, 1974 (payment of which has been deferred as outlined in Note 6);
    - (ii) The company is required to make sinking fund payments on or before April 15 in each year equal to the consolidated net cash flow from operations (as defined) in the preceding twelve month period ending December 31;
    - (iii) The company and any subsidiary may not pay any dividends or make any other distributions on shares without the prior written consent of the debentures holders.
  - (b) In accordance with an agreement dated August 7, 1964:
    - (i) Denison Mines Limited (Denison) has purchased \$2,735,000 6½ % Debentures Series "A" and 150,000 shares of the capital stock of the company (valued at \$62,500) for a cash consideration of \$2,666,625;
    - (ii) If Denison determines that further work is required on the company's mining lands then Denison agrees to provide the financing therefor through purchase of debentures and shares of the company on the terms and conditions set out in the said agreement.
  - (c) Interest on the 6½ % Debentures due June 30, 1974 is in arrears from January 1, 1967, in the amount of \$1,755,312. The Trust Indenture under which the Debentures were issued provides that the security constituted thereunder becomes enforceable on the happening of certain events of default as therein defined. One of these is default in the making of payment of any interest due and continuation of such default for 15 days after written notice thereof. Such notice has not been given by the Trustee. All of the issued Debentures are held by the major shareholder of the company, Denison Mines Limited. During 1974 \$750,000 principal sum of the debentures was repaid.
2. The company has reserved 100,000 treasury shares for incentive options exercisable at \$1 per share on dates to be determined by the company. Options were granted on 92,500 shares of which 30,000 shares were exercised in a prior year and 47,500 shares were forfeited.
  3. The subsidiary being a United States company, its current assets and liabilities in United States dollars have been translated into Canadian dollars at par and all other assets and liabilities are at the rate current at date of expenditure.

The subsidiary was acquired during the year ended April 30, 1965 and the consolidated figures as at December 31, 1974 include the exploration and development expenses and corporate expenses of the subsidiary, prior to acquisition.

# BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 1974

4. Pursuant to an agreement dated September 1, 1970 (and subsequently amended), a joint venture in which the company's wholly-owned subsidiary has a 40% interest has been formed with Kerramerican, Inc. (a subsidiary of Kerr Addison Mines Limited) as at November 3, 1972 to explore, develop and work the subsidiary's properties in Blue Hill, Maine.

The subsidiary has contributed to such joint venture all its mining properties, buildings, equipment and supplies in Maine. The cost of the company's investment in the joint venture is its cost of the properties including deferred expenses as follows:

	1974	1973
Mining properties, buildings and equipment .....	\$1,016,803	\$ 965,480
Deferred exploration and development expenses .....	1,818,327	1,764,140
Deferred administrative expenses .....	1,765,510	1,765,510
	<u>\$4,600,640</u>	<u>\$4,495,130</u>

5. Mining leases are held by the joint venture under annually renewable leases requiring rental payments and a 5% participation in the net value, as defined in the various leasing agreements, of the minerals and metals removed from the leased premises.
6. Pursuant to an agreement dated September 30, 1970, the company's debentures holder, Denison Mines Limited, has agreed not to enforce the charges contained in the Trust Indenture referred to in Note 1, during the term of the agreement referred to in Note 4.

The company will use the proceeds of all monies received from production of the properties to repay the debentures, accrued interest and advances from Denison Mines Limited.

As a result of these deferred payment terms, the accrued interest on debentures has been classified as long-term and the comparative figures have been changed to reflect this presentation.

7. The amounts shown for deferred expenses represent costs to date less amounts written off and are not intended to reflect present or future values.
8. For United States federal income tax purposes the subsidiary has elected to defer exploration and development expenditures incurred in prior years and to deduct such expenses ratably as the minerals or ores benefited are sold.
9. The company has adopted the policy of amortizing the costs of its interest in the Blue Hill Joint Venture and its deferred expenses on a unit of production basis as ore is recovered from the mine.





